



Information Technology Industry Council

Statement for the Record of

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Before the

Committee on Ways and Means

Subcommittee on Trade

U.S. House of Representatives

***U.S.-Brazil Trade and Investment Relationship: Opportunities and
Challenges***

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U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges for the ICT Sector

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The Information Technology Industry Council (ITI) commends Chairman Nunes for calling this important hearing on the U.S.-Brazil trade relationship and appreciates the opportunity to present this statement for the record. ITI is a global trade association representing 52 of the world's most innovative, forward-thinking technology companies. Brazil is an important and growing market for the U.S. high-tech industry. Many of ITI's member companies have operations in Brazil, including manufacturing, research and development, and extensive partner networks with local industry.

As Brazil seeks to expand broadband access, bridge the digital divide, become more active in the information technology services arena, and host upcoming global sporting events, there is a significant increase in trade opportunities available for U.S. information and communications technology (ICT) companies. The potential growth for U.S. ICT companies in Brazil, however, is being challenged by Brazil's industrial policy. The Rousseff Administration has continued, and even expanded, historically inward looking industrial policy, laden with protectionist and import substitution measures and defensive trade mechanisms. We encourage the U.S. Government to use new and existing dialogues and forums to advocate for a level playing field for U.S. companies doing business in Brazil.

Institutionalized in the "Greater Brazil Plan" (*Plano Brasil Maior*) and subsequent "Greater IT Plan" (*TI Maior*), current industrial policy in Brazil has a significant focus on boosting the domestic ICT industry through a variety of measures -- from fiscal incentives to local content requirements -- and often at the expense of foreign competition. While the goal may be to promote and advance the domestic ICT sector, these policies seek to advance a range of protectionist practices that favor national champions and disfavor or even exclude American and other foreign competitors.

The Greater Brazil Plan includes policies to boost local manufacturing, promote innovation, and research and development combined with defensive trade measures. Several aspects of the policy -- including tax incentives tied to local content, technology transfer, and local development and manufacturing requirements -- specifically disadvantage U.S. ICT companies. The policy has led to several measures requiring local manufacturing and development of ICT goods and services; including equipment used to build out 4G spectrum and burdensome in-country testing and certification requirements of ICT sold to the public sector.

Issued in 2012, the subsequent Greater IT Plan is an incentives program for the software and ICT services sector. It aims to promote the local software and ICT services industry by increasing software and ICT services exports from USD2.5 billion to USD20 billion in the next 10 years. The Plan seeks to foster the creation of start-ups, encourage the establishment of research and development centers, and train high-skilled workers, while creating a system of preference margins for domestic companies.

ITI commends the Brazilian government's goals of expanding Brazil's technological base and capacity, facilitating the innovation potential of technology companies, and promoting knowledge-based industries in the country. The trade implications, however, of policies requiring local content and local development in the technology sector are troubling. Local manufacturing and locally developed technology requirements will restrict Brazil's capacity for fostering innovation and impose onerous and discriminatory requirements on U.S. companies seeking to sell into the Brazilian ICT markets.

The Rousseff Administration is also using the government's purchasing power as a tool for industrial development. Several of the measures recently announced leverage the Brazilian's government role in the economy, especially in light of government projects to expand broadband access in advance of the World Cup and Olympic Games. Decree 7174/2010, which regulates the procurement of IT goods and services, allows federal agencies and state entities to give preferential treatment to locally produced computer products and goods or services with technology developed in Brazil. Moreover, ICT bids for goods and services considered "strategic" may be limited to those with technology developed in Brazil.

Examples of these policies include a new system of preferences for government procurement of telecommunications networking equipment. Locally manufactured products will have a preference margin of 15% and products that are both locally designed and manufactured will have preferences of 25%.

There is also a proposed methodology by the government to certify locally-developed software as "national" for purposes of government tenders. Companies providing software and services that have been certified as "national" will have access to preferences that will allow them to overbid and still be awarded a government tender.

Brazil's National Institute of Metrology, Quality and Technology, INMETRO, has also instituted a conformity assessment program for information technology equipment in the government procurement market which creates barriers to entry by requiring redundant testing of IT equipment. This measure is geared toward building up the capacity of local testing and certification bodies and creating burdensome hurdles for imported IT equipment.

Testing and certification requirements in the consumer market also present trade challenges with repetitive in-country testing increasing costs and slowing down market entry. The U.S. ICT industry would benefit greatly if Brazil accepts test results from international accredited certification bodies and refrains from requiring in-country testing in both the public and private sectors. Existing dialogues, such as the U.S.-Brazil Commercial Dialogue could be used to pursue regulatory harmonization and mutual recognition agreements with Brazil.

ITI commends the Rousseff Administration's efforts to grow the Brazilian ICT industry, but recommends that Brazil focus on developing infrastructure and encouraging innovation, entrepreneurship and scientific and technological training to boost the competitiveness of local industry. Discriminating against global players in the ICT sector will limit access to the latest and most innovative technologies on the market.

As a Brazilian assumes the role of Director General of the World Trade Organization (WTO), we hope Brazil will become a greater proponent of the multilateral trading system. U.S. industry would significantly benefit

from Brazil joining the WTO Government Procurement (GPA) and Information Technology Agreements (ITA) and also ongoing discussions on the Trade in International Services Agreement.

By eliminating tariffs on ICT products, the ITA would make innovative technologies more available to Brazilian consumers. As Brazil seeks to move up the value chain from a commodity exporter to service economy, it will need access to best-of-breed, affordable ICT products. Moreover, as Brazil seeks to grow its domestic ICT manufacturing, the ITA can provide significant benefits to domestic producers. The elimination of tariffs on ICT parts, components, and manufacturing equipment will facilitate and boost domestic ICT manufacturing in Brazil by lowering the price of upstream inputs.

We hope the U.S. Government and Congress will use all available bilateral mechanisms to encourage Brazil to adopt a more open and liberal trade policy. Advancing discussions on traditional trade policy, including tariff reduction and discrimination of imports, and also on next-generation trade issues will significantly benefit the bilateral trade relationship. While priority should be given to addressing forced localization policies, the U.S. Government should also simultaneously explore opportunities to increase bilateral trade in the ICT services space.

Brazil's goal of becoming an international services provider presents an opportunity to begin a bilateral dialogue that will benefit the services sectors of both countries. The U.S. ICT industry stands to gain substantially from further liberalization of trade in services as the driving force in the growth of cross-border trade in services. ICT companies not only deliver a wide variety of ICT services, but they also provide the infrastructure that enables services trade across all sectors, from healthcare to financial to entertainment. Discussions on the regulatory framework that supports the ICT services sector, including on licensing, cross-border data flows, and data protection, should be advanced in the Agreement on Trade and Economic Cooperation and the U.S.-Brazil Commercial Dialogue. Brazil should also be encouraged to join negotiations on the Trade in International Services Agreement.

Thank you for the opportunity to provide this statement on the bilateral trade and investment relationship with Brazil. ITI looks forward to working with the U.S. Government to level the playing field for U.S. companies doing business in Brazil and increasing trade and investment opportunities.